INTERSTATE BANKING

OVERVIEW

Part 369 prohibits banks from establishing or acquiring interstate branches primarily for the purpose of deposit production. After the interstate branch has been in existence for over one year, these procedures must be used when examining all institutions that have established or acquired covered interstate branches. For institutions not subject to CRA, the review will take place when the Regional Office deems such a review is necessary.

Part 369 applies to any bank that establishes or acquires a branch under the authority of Section 109 of the Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994 (Interstate Act) or amendments to any other provisions of law made by the Interstate Act.

Examination Objective(s)

To ensure that a bank is not operating a branch pursuant to the Interstate Act outside of its home state primarily for the purpose of deposit production by determining if a bank's covered interstate branch(es) meet(s):

- The loan-to-deposit (LTD) ratio screen or
- the credit needs determination requirements of Section 109 of the Interstate Act.

In This Section

DEFINITIONS

Covered Interstate Branch

Any branch of a bank and any branch of a foreign bank that is established or acquired outside the bank's home state pursuant to the interstate branching authority granted by the Interstate Act.

Home State

For State banks, the term "home state" means the state that chartered the bank. With respect to a national bank, it means the state in which the main office of the bank is located. With respect to a foreign bank, the term is determined in accordance with 12 USC 3103(c).

Host State

A state in which a bank establishes or acquires a covered interstate branch.

Host State Loan-to-Deposit Ratio

Ratio of total loans in the host state to total deposits from the host state for all banks that have that state as their home state. This ratio will be calculated annually by the agencies.

Statewide Loan-to-Deposit Ratio

Relates to an individual bank and is the ratio of a bank's loans to its deposits in a particular state where the bank has interstate branches.

EXAMINATION PROCEDURES

Identification of Branches Subject to an Interstate Banking Evaluation

1. Determine if the bank has any covered interstate branches and the date the branches were established. If the bank does not have any covered interstate branches, the bank is not subject to Part 369 and no further review is necessary.

2. For the covered interstate branches identified in procedure #1, determine if any of the branches have been in existence for more than one year and therefore subject to Part 369. If none of the bank's covered interstate branches have been in existence for more than one year, no further review is necessary.

Assessing Compliance with the LTD Ratio Screen

3. For the branch(es) subject to Part 369, determine if the bank has sufficient data to calculate a statewide LTD ratio for each respective host state. (The bank is not required to provide this information or assist in providing this information.) For states where the bank has sufficient data, go to procedure #4. For states where the bank does not have sufficient data, go to procedure #5.

4. For each state where the bank can provide loan and deposit data, calculate and compare the bank's statewide LTD ratio to the applicable host state LTD ratio provided by the agencies. If the bank's statewide LTD ratio equals or exceeds one-half of the host state LTD ratio, the bank passes the LTD ratio screen and the Interstate banking evaluation, and no further review is necessary. If the bank's statewide LTD ratio is less than one-half of the host state LTD ratio, the bank fails the LTD ratio screen (go to procedure #5).

EXAMINATION PROCEDURES (cont'd)

Credit Needs Determination

5. For each host state identified in procedure #3 or #4, determine whether the bank is reasonably helping to meet the credit needs of communities served by the bank in the host state. When making this determination, the examiner must consider the following items:

   (i) Whether the covered interstate branches were formerly part of a failed or failing depository institution;

   (ii) Whether the covered interstate branches were acquired under circumstances where there was a low LTD ratio because of the nature of the acquired institution's business or loan portfolio;

   (iii) whether the covered interstate branches have a higher concentration of commercial or credit card lending, trust services, or other specialized activities, including the extent to which the covered interstate branches accept deposits in the host state;

   (iv) the most recent ratings (overall rating, multistate MSA rating, and state ratings) received by the bank under the Community Reinvestment Act (CRA);

   (v) economic conditions, including the level of loan demand, within the communities served by the covered interstate branches;

   (vi) the safe and sound operation and condition of the bank; and

   (vii) the CRA regulation, examination procedures, and interpretations of the regulation.

   If the bank passes the credit needs determination test, the bank complies with Part 369, and no further review is necessary. If the bank fails the credit needs determination test and has failed the LTD ratio screen, the bank is in noncompliance with Part 369 (go to procedure #7). If the bank fails the credit needs determination test, but a LTD ratio screen has not been conducted, go to procedure #6.

Determining Whether Sanctions Are Warranted

6. Calculate the statewide LTD ratio for each host state in which the bank failed the credit needs determination test. The data used to calculate these ratios may be obtained from any reliable source. The institution may, but is not required to, provide the examiner with additional data at any time during the examination. If the bank's statewide LTD ratio(s) is (are) equal to or greater than one-half of the host state LTD ratio, the bank complies with Part 369 requirements, and no further review is necessary. If a bank's statewide LTD ratio is less than one-half of the respective host state LTD ratio, the bank is in noncompliance with Part 369 (go to procedure #7).

7. Consult agency management to determine whether sanctions are warranted.

SECTION 109 HOST STATE LOAN-TO-DEPOSIT RATIOS

The Federal Deposit Insurance Corporation (FDIC), the Federal Reserve Board, and the Office of the Comptroller of the Currency ("the agencies") made public the host state loan-to-deposit ratios that the agencies will use to determine compliance with Section 109 of the Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994 (Interstate Act). Section 109 of the Interstate Act prohibits a bank from establishing or acquiring a branch or branches outside of its home state under the Interstate Act primarily for the purpose of deposit production.

NOTE: *The host state loan-to-deposit ratio is the ratio of total loans in a state to total deposits from the state for all banks that have that state as their home state. For state-chartered banks and FDIC-supervised savings banks, the home state is the state where the bank was chartered. For national banks, the home state is the state where the bank's main office is located.*

Section 109 provides a two-step process to test compliance with the statutory requirements. The first step involves a loan-to-deposit ratio screen that compares a bank's statewide loan-to-deposit ratio to the host state loan-to-deposit ratio for a particular state.

NOTE: *The statewide loan-to-deposit ratio relates to an individual bank and is the ratio of a bank's loans to its deposits in a particular state where the bank has interstate branches*.

If the bank's statewide loan-to-deposit ratio in a state is at least one-half of the published host state loan-to-deposit ratio for that state, the bank has complied with Section 109. If the bank's ratio is less than one-half, the second step in Section 109 requires the agencies to determine if the bank is reasonably helping to meet the credit needs of the communities served by the bank. A bank that fails both steps is in violation of Section 109 and subject to sanctions by the agencies.

The agencies will update the host state loan-to-deposit ratios on an annual basis.

Section 109 of the Interstate Banking and Branching Efficiency Act Host State Loan-to-Deposit Ratios (Excludes wholesale or limited purpose CRA-designated banks and credit card banks.)	
State	**Host State Loan-to-Deposit Ratio**
Alabama	95%
Alaska	76%
Arizona	79%
Arkansas	71%
California	87%
Colorado	62%
Connecticut	79%
Delaware	80%
District of Columbia	71%
Florida	95%
Georgia	93%
Hawaii	100%
Idaho	74%
Illinois	84%
Indiana	90%
Iowa	74%
Kansas	71%
Kentucky	92%
Louisiana	79%
Maine	96%
Maryland	82%
Massachusetts	84%
Michigan	97%
Minnesota	101%
Mississippi	73%
Missouri	75%

Section 109 of the Interstate Banking and Branching Efficiency Act

Host State Loan-to-Deposit Ratios

(Excludes wholesale or limited purpose CRA-designated banks and credit card banks.)

State	**Host State Loan-to-Deposit Ratio**
Montana	84%
Nebraska	78%
Nevada	68%
New Hampshire	85%
New Jersey	70%
New Mexico	68%
New York	88%
North Carolina	100%
North Dakota	90%
Ohio	106%
Oklahoma	68%
Oregon	80%
Pennsylvania	97%
Rhode Island	69%
South Carolina	80%
South Dakota	93%
Tennessee	88%
Texas	66%
Utah	100%
Vermont	83%
Virginia	84%
Washington	115%
West Virginia	83%
Wisconsin	92%
Wyoming	73%
American Samoa	81%
Federated States of Micronesia	52%

Section 109 of the Interstate Banking and Branching Efficiency Act Host State Loan-to-Deposit Ratios (Excludes wholesale or limited purpose CRA-designated banks and credit card banks.)	
State	**Host State Loan-to-Deposit Ratio**
Guam	68%
Puerto Rico	93%
Virgin Islands	68%

SECTION 109 HOST STATE LOAN-TO-DEPOSIT RATIOS (cont'd)

Due to the legislative intent against imposing regulatory burden, no additional data were collected from the institutions to implement Section 109. However, since insufficient lending data were available on a geographic basis to calculate the statewide ratios directly, the agencies used a proxy to estimate the host state loan-to-deposit ratio. The agencies calculated the host state loan-to-deposit ratios using data obtained from the Call Reports and Summary of Deposits reports, as of June 30, 1998. For each home state bank, the agencies calculated the percentage of the bank's total deposits attributable to branches located in its home state (determined from the Summary of Deposits) and applied this percentage to the bank's total domestic loans (determined from the Call Report) to estimate the amount of loans attributable to the home state. The host state loan-to-deposit ratio was then calculated by separately totaling the loans and deposits for the home state banks, and then dividing the sum of the loans by the sum of the deposits. Banks designated as limited purpose or wholesale banks under the Community Reinvestment Act (CRA) were excluded from the host state loan-to-deposit calculation, recognizing that these banks could have very large loan portfolios, but few, if any, deposits. Credit card banks, which typically have large loan portfolios but few deposits, were also excluded, regardless of whether they had a limited purpose CRA-designation.

The host state loan-to-deposit ratios, and any changes in the way the ratio is calculated, will be made publicly available on an annual basis.

FDIC LAW, REGULATIONS, & RELATED ACTS

Applicable Rules

Part 369 –
Prohibition Against Use of Interstate Branches Primarily for Deposit Production, Volume 1, Page 3235.

Advisory Opinions

None

Statements of Policy

None

DCA MEMORANDA

Interstate Banking Examination Procedures, DCA-98-017, dated 8/13/98

FINANCIAL INSTITUTION LETTERS (FIL)

Host State Loan-to-Deposit Ratios, Letter # 88-98, dated 8/17/98

Prohibition of Interstate Branching Primarily for Deposit Production, Letter #96-97, dated 9/23/97